

Highland Credit Strategies Fund
Form N-Q
December 01, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-Q
QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY
Investment Company Act file number 811-21869
Highland Credit Strategies Fund**

(Exact name of registrant as specified in charter)

NexBank Tower
13455 Noel Road, Suite 800
Dallas, Texas 75240

(Address of principal executive offices) (Zip code)

James D. Dondero
Highland Capital Management, L.P.
NexBank Tower
13455 Noel Road, Suite 800
Dallas, Texas 75240

(Name and address of agent for service)

Registrant's telephone number, including area code: (877) 665-1287

Date of fiscal year end: December 31

Date of reporting period: September 30, 2008

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Schedule of Investments.

The Schedule(s) of Investments is attached herewith.

INVESTMENT PORTFOLIO (unaudited)**As of September 30, 2008****Highland Credit Strategies Fund**

Principal Amount (\$)		Value (\$)
Senior Loans (a) - 72.4%		
AEROSPACE - 2.6%		
1,808,201	AWAS Capital, Inc. Second Lien Term Loan, 9.25%, 03/15/13	1,310,945
571,429	Continental Airlines, Inc. New Tranche A-1 Term Loan, 06/01/11 (b)	484,286
1,428,571	New Tranche A-2 Term Loan, 06/01/11 (b)	1,207,143
7,299,556	Delta Airlines, Inc. Term Loan Equipment Notes, 7.38%, 09/29/12	5,474,667
1,752,273	DTN, Inc. Tranche C Term Loan, 5.82%, 03/10/13	1,647,137
2,736,277	IAP Worldwide Services, Inc. First Lien Term Loan, 9.06%, 12/30/12	2,120,615
2,033,688	Second Lien Term Loan, PIK, 10.50%, 06/18/13	1,264,263
3,079,596	Northwest Airlines, Inc. Term Loan, 4.75%, 08/21/13	2,717,743
2,482,449	United Air Lines, Inc. Tranche B Loan, 5.46%, 01/31/14	1,553,070
		17,779,869
BROADCASTING - 2.2%		
1,080,492	Comcorp Broadcasting, Inc. Revolving Loan, 8.15%, 04/13/13 (c) (d) (e)	928,143
11,309,712	Term Loan, 8.31%, 04/03/13 (d) (e)	9,715,043
4,623,000	Univision Communications, Inc. Second Lien Term Loan, 6.50%, 03/25/09	4,414,965

15,058,151

CABLE/WIRELESS VIDEO - 2.6%

	Broadstripe, LLC	
	First Lien Term Loan,	
14,148,290	9.81%, 06/30/11	13,936,066
	Revolver,	
1,428,203	9.78%, 06/30/11	1,402,238
	Charter Communications Operating, LLC	
	Replacement Term Loan,	
1,977,500	4.80%, 03/06/14	1,582,277
	WideOpenWest Finance, LLC	
	Second Lien Term Loan,	
1,303,398	9.50%, 06/29/15	1,010,133
		17,930,714

CHEMICALS - 0.6%

	Arclin US Holdings, Inc.	
	First Lien Term Loan, 5.56%,	
400,000	07/10/14	328,000
	Solutia, Inc.	
1,970,038	Term Loan, 8.50%, 02/28/14	1,809,480
	Tronox Worldwide, LLC	
	Revolving Credit Loan, 6.85%,	
2,419,200	11/28/10 (c)	2,116,800
		4,254,280

CONSUMER DURABLES - 0.3%

	Rexair LLC	
	First Lien Term Loan, 8.01%,	
2,127,676	06/30/10	1,914,908

CONSUMER NON-DURABLES - 0.5%

	Spectrum Brands, Inc.	
	Dollar Term B Loan,	
4,597,313	6.73%, 03/30/13	3,420,401
	Letter of Credit,	
160,498	6.49%, 03/30/13	119,410
		3,539,811

DIVERSIFIED MEDIA - 4.9%

2,000,000	Alpha Topco Ltd. (Formula One) Second Lien Facility D, 6.63%, 06/30/14	1,677,500
1,975,000	Clarke American Corp. Tranche B Term Loan, 6.03%, 06/30/14	1,530,625
3,000,000	Endurance Business Media, Inc. Second Lien Term Loan, 10.96%, 01/26/14	2,370,000
8,254,644	Metro-Goldwyn-Mayer, Inc. Tranche B Term Loan, 7.01%, 04/06/12	5,664,750
2,955,000	Tranche B-1 Term Loan, 7.01%, 04/08/12	2,027,869
7,884,322	Nielsen Finance LLC Dollar Term Loan, 4.80%, 08/09/13	6,994,498
10,000,000	Penton Media, Inc. Second Lien Term Loan, 7.80%, 02/01/14	6,750,000
7,865,126	Tribune Co. Initial Tranche B Advance, 5.79%, 06/04/14	4,112,045
2,730,667	Tranche X Advance, 5.54%, 05/30/09	2,554,047
		33,681,334

ENERGY - 5.2%

216,202	Alon USA Energy, Inc. Edington Facility, 5.06%, 06/22/13	175,124
1,729,620	Paramount Facility, 5.75%, 06/22/13	1,400,992
14,985,000	Crusader Energy Group, Inc. Second Lien Term Loan, 10.55%, 07/17/13	14,685,300
455,035	Delphi Acquisition Holding I B.V. Facility B1, 6.01%, 01/12/15	408,776
455,035	Facility C1, 6.64%, 01/11/16	411,051

See accompanying Notes to Investment Portfolio.

INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

Principal Amount (\$)	Value (\$)
Senior Loans (continued)	

ENERGY (continued)

6,000,000	Resolute Aneth, LLC Second Lien Term Loan, 7.30%, 06/26/13 Venoco, Inc.	5,280,000
14,500,000	Second Lien Loan, 6.81%, 09/20/11	13,702,500
		36,063,743

FINANCIAL - 0.2%

1,300,000	Emerson Reinsurance Ltd. Series A Loan, 4.57%, 12/15/11	1,111,500
500,000	Series B Loan, 5.82%, 12/15/11	427,500
200,000	Series C Loan, 8.07%, 12/15/11	171,000
		1,710,000

FOOD/TOBACCO - 1.1%

1,853,889	DS Waters of America, Inc. Term B Loan, 5.95%, 10/25/12	1,687,039
1,828,160	PBM Holdings, Inc. Term Loan, 5.96%, 09/27/12	1,727,611
4,500,000	Wm Wrigley Jr. Co. Tranche B Term Loan, 07/17/14 (b)	4,430,925
		7,845,575

FOREST PRODUCTS/CONTAINERS - 1.1%

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2,500,000	Boise Paper Holdings LLC Second Lien Term Loan, 11.00%, 02/23/15	2,275,000
1,619,000	Newark Group, Inc. Credit-Link Letter of Credit, 10.21%, 03/09/13	1,295,200
240,300	Term Loan, 9.53%, 03/09/13	192,240
4,928,000	Verso Paper Finance Holdings LLC Term Loan, 10.01%, 02/01/13	3,880,800
		7,643,240

GAMING/LEISURE - 14.9%

6,041,285	Drake Hotel Acquisition B Note 1, 12.90%, 04/01/09 (e) (f)	5,341,101
12,500,000	Fontainebleau Florida Hotel LLC Tranche C Term Loan, 8.82%, 06/06/12	11,375,000
1,333,333	Fontainebleau Las Vegas LLC Initial Term Loan, 6.07%, 06/06/14	810,000
3,937,249	Ginn LA Conduit Lender, Inc. First Lien Tranche A Credit-Linked Deposit, 8.54%, 06/08/11 (f)	1,017,110
8,438,203	First Lien Tranche B Term Loan, 6.20%, 06/08/11 (f)	2,179,841
1,561,338	Green Valley Ranch Gaming LLC New Term Loan, 5.71%, 02/16/14	1,108,550
1,000,000	Second Lien Term Loan, 6.96%, 08/16/14	522,500
7,439,660	Kuilima Resort Co. First Lien Term Loan, 11.50%, 09/30/10 (f)	4,860,627
4,549,027	Lake at Las Vegas Joint Venture Revolving Loan Credit-Linked Deposit Account, 16.10%, 06/20/12 (b) (f)	1,000,786
34,125,359	Term Loan DIP, 11.98%, 07/16/09	34,125,359
40,074,794	Term Loan, PIK, 16.35%, 06/20/12 (b) (f)	7,858,845
19,802,292	Pacific Clarion LLC Term Loan, 15.00%, 01/23/09 (e) (g)	18,925,051
6,000,000	WAICCS Las Vegas 3 LLC First Lien Term Loan, 5.96%, 02/01/09	4,950,000
7,000,000		5,075,000

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	Second Lien Term Loan, 11.46%, 02/01/09 Wimar Landco, LLC	
5,000,000	Term Loan, 6.25%, 07/03/09 (f)	3,830,000
		102,979,770

HEALTHCARE - 6.3%

	Aveta, Inc. MMM Original Term Loan, 9.21%, 08/22/11 (b)	5,114,161
5,912,325	NAMM New Term Loan, 9.21%, 08/22/11 (b)	759,733
878,304	NAMM Original Term Loan, 9.21%, 08/22/11 (b)	1,369,002
1,582,662	PHMC Acquisition Term Loan, 9.21%, 08/22/11 (b)	4,191,172
4,845,285	CCS Medical, Inc. First Lien Term Loan, 7.02%, 09/30/12	9,475,385
11,555,348	Danish Holdco A/S Facility D, 6.54%, 11/01/16	1,500,000
2,500,000	Mezzanine Facility, PIK, 10.20%, 05/01/17	1,790,985
3,256,337	LifeCare Holdings Term Loan, 7.96%, 08/11/12	4,527,800
5,422,514	Medical Staffing Network, Inc. First Lien Term Loan, 6.31%, 07/02/13	972,687
987,500	Mylan, Inc. U.S. Tranche B Term Loan, 7.04%, 10/02/14	4,658,887
4,947,525	Nyco Holdings 3 ApS Facility A3, 5.34%, 12/29/13	64,168
79,926	Facility A4, 5.34%, 12/29/13	40,876
50,914	Facility A5, 5.34%, 12/29/13	289,022
360,000		

See accompanying Notes to Investment Portfolio.

INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

Principal Amount (\$)	Value (\$)
Senior Loans (continued)	

HEALTHCARE (continued)

8,954,430	Talecris Biotherapeutics Holdings Corp. First Lien Term Loan, 6.31%, 12/06/13	8,730,570
500,000	Triumph Healthcare Second Holdings LLC Second Lien Term Loan, 10.76%, 07/28/14	462,500
		43,946,948

HOUSING - 4.4%

4,633,371	Custom Building Products, Inc. First Lien Term Loan, 5.95%, 10/20/11	3,845,698
1,625,000	Second Lien Term Loan, 8.70%, 04/20/12	1,283,750
3,190,581	LBREP/L-Suncal Master I LLC First Lien Term Loan, 8.59%, 01/19/10 (f)	11,965
8,800,000	LNR Property Corp. Initial Tranche B Term Loan, 6.04%, 07/12/11	5,844,608
6,000,000	MPH Mezzanine II, LLC Mezzanine 2B, 7.48%, 02/09/09 (e) (f)	
4,000,000	MPH Mezzanine III, LLC Mezzanine 3, 8.48%, 02/09/09 (e) (f)	
2,500,000	November 2005 Land Investors LLC Second Lien Term Loan, 11.95%, 04/24/12	625,000
250,093	Realogy Corp. Initial Term B Loan, 5.57%, 10/10/13 (h)	189,525
67,333	Synthetic Letter of Credit, 6.93%, 10/10/13 (h)	51,026
3,832,580	Roofing Supply Group LLC Term Loan, PIK, 7.80%, 08/14/13	2,922,342

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1,074,187	Universal Buildings Products, Inc. Term Loan, 6.34%, 04/28/12	859,349
8,073,323	Westgate Investments LLC Senior Secured Loan, PIK, 6.75%, 09/25/10 (g)	8,113,689
1,980,405	Senior Unsecured Loan, PIK, 18.00%, 09/25/12 (g)	1,990,307
3,165,493	Third Lien Term Loan, 18.00%, 06/30/15 (c) (g)	2,880,598
2,000,000	Weststate Land Partners LLC Second Lien Term Loan, 10.99%, 10/31/08	1,720,000
		30,337,857

INFORMATION TECHNOLOGY - 1.6%

148,489	Freescall Semiconductor, Inc. Term Loan, 4.24%, 11/29/13	121,946
3,000,000	Infor Enterprise Solutions Holdings, Inc. Dollar Tranche B-1, Second Lien Term Commitment, 9.26%, 07/28/12	1,380,000
2,200,000	Second Lien Delayed Draw Term Loan, 10.01%, 03/02/14 (b)	1,067,000
3,800,000	Second Lien Term Loan, 10.01%, 03/02/14 (b)	1,843,000
1,706,667	Serena Software, Inc. Term Loan, 4.68%, 03/11/13	1,553,067
6,000,000	Verint Systems, Inc. Term Loan, 5.74%, 05/25/14	5,100,000
		11,065,013

MANUFACTURING - 3.4%

7,842,456	Acument Global Technologies, Inc. Term Loan, 7.26%, 08/11/13	7,293,484
1,666,667	Generac Acquisition Corp. Second Lien Term Loan, 8.79%, 05/06/14	786,667
1,000,000	Hunter Defense Technologies, Inc. Term Loan, 7.03%, 08/12/14	830,000
5,000,000	Manitowoc Co., Inc. Term B Loan, 08/30/14 (b)	4,810,000
1,254,328	Matinvest 2 SAS / Butterfly Wendal US, Inc. B-2 Facility,	1,128,895

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	5.38%, 06/22/14	
	C-2 Facility,	
1,116,317	5.63%, 06/22/15	1,010,267
	Matinvest 2 SAS / Deutsche Connector	
	Mezzanine A USD Facility,	
1,091,124	PIK, 11.43%, 06/22/16	943,822
	Maxum Petroleum, Inc.	
5,855,176	Term Loan, 9.33%, 09/18/13	5,445,314
	United Central Industrial Supply Co., LLC	
1,564,569	Term Loan, 5.00%, 03/31/12	1,455,049
		23,703,498

METALS/MINERALS - 1.1%

	Euramax International Holdings B.V.	
	Second Lien European Loan,	
1,326,316	10.79%, 06/29/13	895,263
	Euramax International, Inc.	
	Domestic Term Loan,	
2,753,611	8.00%, 06/29/12	2,184,549
	Second Lien Domestic Term Loan,	
6,673,684	10.79%, 06/29/13	4,337,895
		7,417,707

RETAIL - 2.8%

	Burlington Coat Factory	
	Warehouse Corp.	
3,930,028	Term Loan, 5.06%, 05/28/13	2,816,848

See accompanying Notes to Investment Portfolio.

INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

Principal Amount (\$)	Value (\$)
Senior Loans (continued)	

RETAIL (continued)

2,000,000	Dollar General Corp. Tranche B-2 Term Loan, 6.48%, 07/07/14	1,744,360
7,223,706	Home Interiors & Gifts, Inc. Initial Term Loan, 10.36%, 03/31/11 (e) (f)	1,697,571
94,136	Movie Gallery, Inc. First Lien Synthetic Letter of Credit Loan, 9.51%, 03/08/12	64,954
2,433,626	First Lien Term Loan, 13.21%, 03/08/12	1,679,202
6,500,000	Spirit Finance Corp. Term Loan, 5.80%, 08/01/13	4,550,000
1,955,000	Sports Authority, Inc., The Term Loan B, 6.01%, 05/03/13	1,495,575
5,970,149	Toys R Us Tranche B Term Loan, 7.06%, 07/19/12	5,392,537
		19,441,047

SERVICE - 4.5%

9,375,000	Cydcor, Inc. First Lien Tranche B Term Loan, 9.00%, 02/05/13	8,812,500
3,000,000	Second Lien Tranche B Term Loan, 12.00%, 02/05/14	2,820,000
7,765,705	NES Rentals Holdings, Inc. Second Lien Permanent Term Loan, 9.50%, 07/20/13	5,668,964
3,000,000	Penhall Holding Co. Term Loan PIK, 10.13%, 04/01/12	1,950,000
1,627,119	Safety-Kleen Systems, Inc. Synthetic Letter of Credit, 5.00%, 08/02/13	1,513,220
6,128,136		5,699,166

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	Term Loan B, 5.00%, 08/02/13 Total Safety U.S., Inc. First Lien Tranche B Term Loan, 6.51%, 12/08/12	943,200
982,500	Valleycrest Cos., LLC New Term Loan, 4.82%, 10/04/13	4,045,301
4,676,648		31,452,351

TELECOMMUNICATIONS - 1.1%

3,000,000	Level 3 Financing, Inc. Term Loan, 4.95%, 03/13/14 PaeTec Holding Corp. Replacement Term Loan, 6.20%, 02/26/13	2,568,780
4,063,132	Sorenson Communications, Inc. Tranche C Term Loan, 5.03%, 08/16/13	3,419,817
1,673,748		1,569,139
		7,557,736

TRANSPORTATION - AUTOMOTIVE - 3.7%

2,662,000	BST Safety Textiles Acquisition GMBH Second Lien Facility, 12.10%, 06/30/09 Delphi Corp. Initial Tranche C Loan DIP, 8.50%, 12/31/08 (b)	1,929,950
8,168,139	Subsequent Tranche C Loan DIP, 8.50%, 12/31/08 (b)	6,765,915
831,861	Ford Motor Co. Term Loan, 5.49%, 12/13/13	689,055
9,750,190	Motor Coach Industries International, Inc. Second Lien Loan, PIK, 11.13%, 12/01/08 (f)	6,508,252
3,371,170	Tranche A DIP, 09/16/09 (b)	3,034,053
4,133,355	Tranche B DIP, 18.25%, 09/16/09	4,149,330
2,949,240		2,890,255
		25,966,810

TRANSPORTATION - LAND TRANSPORTATION - 0.9%

2,308,221	New Century Transportation, Inc. Term Loan, 8.96%, 08/14/12	1,615,755
1,270,682	SIRVA Worldwide, Inc. Revolving Credit Loan (Exit Finance), 9.96%, 05/12/12 (c)	1,200,794
2,923,930	Second Lien Term Loan, 12.00%, 05/15/15	1,827,457
1,535,256	Term Loan (Exit Finance), 10.21%, 05/12/12	1,450,817
		6,094,823

UTILITY - 5.0%

6,946,970	Boston Generating LLC First Lien Term Loan, 6.01%, 12/20/13	5,569,733
184,651	Coletto Creek Power, LP First Lien Synthetic Letter of Credit, 6.51%, 06/28/13	162,954
2,613,277	First Lien Term Loan, 6.51%, 06/28/13	2,306,217
4,887,500	Second Lien Term Loan, 7.76%, 06/28/13	4,015,863
9,267,119	Entegra TC LLC Third Lien Term Loan, PIK, 8.80%, 10/19/15	6,104,715
5,024,486	GBGH LLC First Lien Advance, PIK, 11.75%, 08/07/13 (f)	4,923,996
5,828,655	Second Lien Advance, PIK, 14.50%, 08/07/14 (e) (f)	3,709,356
8,718,960	Mach Gen LLC Term C Loan, PIK, 10.14%, 02/22/15	7,515,743
		34,308,577

See accompanying Notes to Investment Portfolio.

INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

Principal Amount (\$)		Value (\$)
Senior Loans (continued)		
WIRELESS COMMUNICATIONS - 1.4%		
	American Messaging Services, Inc.	
	Senior Secured Note, 8.88%,	
554,434	09/30/09	557,206
	Clearwire Corp.	
9,900,000	Term Loan, 8.82%, 07/03/12	9,405,000
		9,962,206
	Total Senior Loans	
	(Cost \$612,188,402)	501,655,968

Principal Amount
Foreign Denominated Senior Loans (a) - 6.1%

AUSTRALIA - 2.3%**AUD**

	SMG H5 Property Ltd.	
	Facility A Term Loan, 9.69%,	
22,940,476	12/22/13 (h)	15,743,019

FRANCE - 2.2%**EUR**

	Ypso Holding SA	
	Eur B Acq 1 Facility,	
2,012,048	7.51%, 03/02/15	2,119,134
	Eur B Acq 2 Facility,	
3,282,814	7.51%, 03/02/15	3,457,533
	Eur B Recap 1 Facility,	
5,213,674	7.51%, 03/02/15	5,491,157
	Eur C Acq Facility,	
1,389,750	7.76%, 12/31/15	1,547,052
	Eur C Recap Facility,	
2,610,250	7.76%, 12/31/15	2,778,542

15,393,418

SWEDEN - 0.5%**SEK**

	Nordic Cable Acquisition Co., AB	
	Facility B2 Com Hen Comm,	
15,333,333	7.38%, 01/31/14	1,891,172
	Facility C2 Com Hen,	
14,666,667	7.51%, 01/31/15	1,766,878
		3,658,050

UNITED KINGDOM - 1.1%**GBP**

	Mobileserv Ltd.	
	Facility B,	
2,764,925	8.39%, 09/22/14	3,513,485
	Facility C,	
3,250,000	8.89%, 09/22/15	4,155,259
		7,668,744

Total Foreign Denominated
Senior Loans
(Cost \$52,651,447)

42,463,231**Principal Amount (\$)****Value (\$)****Asset-Backed Securities (i) - 6.0%**

	AB CLO, Ltd.	
	Series 2007-1A, Class C,	
2,000,000	6.60%, 04/15/21 (j)	1,191,420
	ACA CLO, Ltd.	
	Series 2006-2A, Class B,	
4,000,000	3.51%, 01/20/21 (j)	2,844,370
	Series 2007-1A, Class D,	
2,000,000	7.10%, 06/15/22 (j)	1,118,600
	Babson CLO, Ltd.	
	Series 2007-2A, Class D,	
1,000,000	4.49%, 04/15/21 (j)	556,840
	Bluemountain CLO, Ltd.	
	Series 2007-3A, Class D,	
1,000,000	4.22%, 03/17/21 (j)	550,000
	Cent CDO, Ltd.	
	Series 2007-15A, Class C,	
2,000,000	5.07%, 03/11/21 (j)	1,162,624

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	Columbus Nova CLO, Ltd. Series 2007- 1A, Class D, 2,000,000 4.16%, 05/16/19 (j)	1,084,000
	Commercial Industrial Finance Corp. Series 2006-1BA, Class B2L, 1,000,000 7.20%, 12/22/20	497,344
	Series 2006-2A, Class B2L, 1,000,000 6.81%, 03/01/21 (j)	395,762
	Cornerstone CLO, Ltd. Series 2007-1A, Class C, 2,500,000 5.19%, 07/15/21 (j)	1,498,075
	Goldman Sachs Asset Management CLO PLC Series 2007-1A, Class D, 4,000,000 5.42%, 08/01/22 (j)	2,662,888
	Series 2007-1A, Class E, 1,000,000 7.67%, 08/02/22 (j)	528,458
	Greywolf CLO, Ltd Series 2007-1A, Class D, 1,000,000 4.31%, 02/18/21 (j)	577,500
	Series 2007-1A, Class E, 1,000,000 6.76%, 02/18/21 (j)	451,300
	GSC Partners CDO Fund, Ltd. Series 2007-8A, Class C, 3,000,000 4.26%, 04/17/21 (j)	1,396,995
	Gulf Stream Sextant CLO, Ltd. Series 2007-1A, Class D, 1,000,000 5.22%, 06/17/21 (j)	587,800
	Hillmark Funding Series 2006-1A, Class C, 2,000,000 4.51%, 05/21/21 (j)	1,172,600
	Series 2006-1A, Class D, 1,000,000 6.41%, 05/21/21 (j)	435,580
	Inwood Park CDO, Ltd. Series 2006-1A, Class C, 1,000,000 3.49%, 01/20/21 (j)	706,400
	Series 2006-1A, Class D, 1,000,000 4.19%, 01/20/21 (j)	640,700
	Limerock CLO Series 2007-1A, Class D, 2,000,000 6.15%, 04/24/23 (j)	921,000
	Madison Park Funding Ltd. Series 2007-5A, Class C, 2,000,000 4.26%, 02/26/21 (j)	1,082,958
	Series 2007-5A, Class D, 1,500,000 6.31%, 02/26/21 (j)	726,141
<i>See accompanying Notes to Investment Portfolio.</i>		

INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

Principal Amount (\$)		Value (\$)
Asset-Backed Securities (continued)		
1,000,000	Marquette US/European CLO, PLC Series 2006-1A, Class D1, 4.54%, 07/15/20 (j) Navigator CDO, Ltd.	596,280
1,000,000	Series 2006-2A, Class D, 6.70%, 09/20/20 (j) Ocean Trails CLO	519,700
1,000,000	Series 2006-1A, Class D, 6.54%, 10/12/20 (j)	558,320
2,500,000	Series 2007-2A, Class C, 5.14%, 06/27/22 (j) PPM Grayhawk CLO, Ltd.	1,397,500
1,000,000	Series 2007-1A, Class C, 4.19%, 04/18/21 (j)	578,900
1,150,000	Series 2007-1A, Class D, 6.39%, 04/18/21 (j) Primus CLO, Ltd.	563,796
5,000,000	Series 2007-2A, Class D, 5.19%, 07/15/21 (j)	3,074,000
2,000,000	Series 2007-2A, Class E, 7.54%, 07/15/21 (j) Rampart CLO, Ltd.	1,068,000
4,000,000	Series 2006-1A, Class C, 4.24%, 04/18/21 (j) St. James River CLO, Ltd.	2,415,000
3,000,000	Series 2007-1A, Class E, 7.12%, 06/11/21 (j) Stanfield Daytona CLO, Ltd.	1,638,198
1,200,000	Series 2007-1A, Class B1L, 4.15%, 04/27/21 (j) Stanfield McLaren CLO, Ltd.	684,936
4,000,000	Series 2007-1A, Class B1L, 5.21%, 02/27/21 (j) Stone Tower CLO, Ltd.	2,624,496
2,000,000	Series 2007-6A, Class C, 4.14%, 04/17/21 (j) Venture CDO, Ltd.	1,080,000
2,000,000	Series 2007-9A, Class D, 6.94%, 10/12/21 (j) Westbrook CLO, Ltd.	1,292,000
1,000,000	Series 2006-1A, Class D, 4.90%, 12/20/20 (j)	585,000

Total Asset-Backed Securities
(Cost \$50,368,386)

41,465,481

Foreign Asset-Backed Securities (i) - 0.6%

**Principal
Amount
IRELAND -
0.6%
EUR**

	Static Loan Funding	
	Series 2007-1X, Class D,	
2,000,000	12.15%, 07/31/17	2,157,827
	Series 2007-1X, Class E,	
2,000,000	9.65%, 07/31/17	1,854,141

Total Foreign Asset-Backed Securities
(Cost \$5,440,884)

4,011,968

Principal Amount (\$)

Value (\$)

Corporate Notes and Bonds - 38.6%

AEROSPACE - 0.2%

	Delta Air Lines, Inc.	
5,000,000	8.00%, 06/30/23 (f) (k)	125,000
7,000,000	8.30%, 12/15/29 (f)	175,000
	Northwest Airlines Corp.	
2,500,000	12/30/27 (f)	21,875
	Northwest Airlines, Inc.	
1,623,507	9.06%, 05/20/12	1,404,689
		1,726,564

BROADCASTING - 0.9%

	Clear Channel Communications, Inc.	
3,000,000	5.00%, 03/15/12	1,605,000
7,000,000	6.25%, 03/15/11	4,550,000
	Young Broadcasting, Inc.	
3,065,000	10.00%, 03/01/11 (k)	459,750

6,614,750

CABLE/WIRELESS VIDEO - 2.3%

	CCH I Holdings LLC	
1,250,000	9.92%, 04/01/14 (k)	468,750
3,375,000	10.00%, 05/15/14 (k)	1,265,625
2,500,000	11.75%, 05/15/14	975,000
	CCH I LLC	
8,860,000	11.00%, 10/01/15 (k)	5,891,900
	Charter Communications, Inc., Convertible	
2,634,000	6.50%, 10/01/27	767,153
	Grande Communications Holdings, Inc.	
2,000,000	14.00%, 04/01/11	2,090,000
	Intelsat Bermuda Ltd.	
4,500,000	11.25%, 06/15/16 (j)	4,398,750
		15,857,178

CHEMICALS - 0.8%

	Albemarle Corp.	
2,000,000	5.10%, 02/01/15	1,849,944
	Georgia Gulf Corp.	
2,000,000	9.50%, 10/15/14	1,240,000
	Tronox Worldwide, LLC	
6,750,000	9.50%, 12/01/12 (k)	2,261,250
		5,351,194

CONSUMER NON-DURABLES - 2.3%

	Ames True Temper, Inc.	
5,000,000	6.79%, 01/15/12 (i)	3,775,000
	Outsourcing Services Group, Inc.	
837,840	9.00%, 03/01/09 (e) (f)	
	Solo Cup Co.	
13,245,000	8.50%, 02/15/14	10,662,225
	Spectrum Brands, Inc., PIK	
2,530,000	12.00%, 10/02/13 (k) (l)	1,631,850
		16,069,075

ENERGY - 0.4%

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Energy XXI Gulf Coast, Inc.	
4,150,000 10.00%, 06/15/13	3,133,250

See accompanying Notes to Investment Portfolio.

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INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

Principal Amount (\$)		Value (\$)
Corporate Notes and Bonds (continued)		
FINANCIAL - 4.4%		
3,500,000	Allied Capital Corp. 6.00%, 04/01/12	3,260,362
2,000,000	BankAmerica Institutional, Class A 8.07%, 12/31/26 (j)	1,718,614
22,200,000	HUB International Holdings, Inc. 10.25%, 06/15/15 (j)	17,649,000
7,000,000	National City Corp. 4.00%, 02/01/11	3,290,000
3,000,000	5.75%, 02/01/09	1,835,154
3,500,000	Penhall International, Corp. 12.00%, 08/01/14 (j)	2,432,500
		30,185,630
FOOD/TOBACCO - 0.1%		
500,000	Pinnacle Foods Group, Inc. 10.63%, 04/01/17 (k)	377,500
FOREST PRODUCTS/CONTAINERS - 0.0%		
296,010	NewPage Corp., PIK 9.99%, 11/01/13 (i)	263,449
GAMING/LEISURE - 0.6%		
28,974,000	Tropicana Entertainment LLC 9.63%, 12/15/14 (f)	4,201,230
HEALTHCARE - 16.4%		
12,482,208	Argatroban Royalty Sub LLC 18.50%, 09/21/14	12,544,619
10,000,000	Azithromycin Royalty Sub LLC 16.00%, 05/15/19	10,050,000
31,496,522		31,181,557

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	Celtic Pharma Phinco B.V.	
	PIK, 17.00%, 06/15/12	
	Cinacalcet Royalty Sub LLC	
371,434	8.00%, 03/30/17	419,721
	Fosamprenavir Pharma	
4,849,949	15.50%, 06/15/18	4,874,199
	LifeCare Holdings	
5,000,000	9.25%, 08/15/13 (k)	2,925,000
	Molecular Insight Pharmaceuticals, Inc.	
2,500,000	11.10%, 11/01/12 (i)	2,556,250
	Pharma 17 (Sanctura XR)	
24,500,000	16.00%, 11/05/24	24,622,500
	Pharma II (Risperidone)	
2,000,000	7.00%, 01/18/18	1,820,000
	Pharma IV (Eszopiclone)	
2,933,753	12.00%, 06/30/14	2,992,428
	Pharma V (Duloxetine)	
2,000,000	13.00%, 10/15/13	2,060,000
	Pharma X (Sensipar-Cinacalcet)	
2,077,500	15.50%, 03/30/17	2,056,725
	TCD Pharma	
15,500,000	16.00%, 04/15/24	15,577,500
	Teva Pharmaceutical Finance LLC	
250,000	5.55%, 02/01/16	232,717
		113,913,216

HOUSING - 2.0%

	Realogy Corp.	
11,000,000	10.50%, 04/15/14	4,895,000
20,170,000	12.38%, 04/15/15 (k)	6,958,650
	SUSA Partnership LP	
1,000,000	7.45%, 07/01/18	1,103,165
	WII Components, Inc	
1,000,000	10.00%, 02/15/12 (k)	685,000
		13,641,815

INFORMATION TECHNOLOGY - 1.5%

	Charys Holding Co., Inc.	
5,000,000	8.75%, 02/16/12 (e) (f) (j)	1,565,500
	Freescall Semiconductor, Inc.	
2,000,000	6.69%, 12/15/14 (i)	1,350,000
700,000	9.13%, 12/15/14 (j)	444,500
13,000,000		4,355,000

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MagnaChip Semiconductor

6.07%, 12/15/11 (i) (k)

Spanion LLC

5,000,000	11.25%, 01/15/16 (j) (k)	2,900,000
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10,615,000

RETAIL - 1.7%

Blockbuster, Inc.

6,022,000	9.00%, 09/01/12	4,335,840
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Claire's Stores, Inc.

7,250,000	10.50%, 06/01/17	2,465,000
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Dollar General Corp.

4,830,000	10.63%, 07/15/15 (k)	4,781,700
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11,582,540

TELECOMMUNICATIONS - 0.1%

Nordic Telephone Co. Holdings APS

500,000	8.88%, 05/01/16 (j)	457,500
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TRANSPORTATION - AUTOMOTIVE - 1.7%

American Tire Distributors Holdings, Inc.

11,500,000	9.04%, 04/01/12 (i)	9,717,500
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Delphi Corp.

3,784,000	6.50%, 05/01/09 (f)	473,000
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200,000	6.50%, 08/15/13 (f)	26,000
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3,933,000	6.55%, 06/15/09 (f) (k)	491,625
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8,334,000	7.13%, 05/01/29 (f) (k)	1,041,750
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Motor Coach Industries International, Inc.

1,250,000	11.25%, 05/01/09 (f)	93,750
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11,843,625

UTILITY - 0.3%

Kiowa Power

2,000,000	5.74%, 03/30/21 (j)	1,835,898
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USGEN New England PCG

56,303	7.46%, 01/02/15 (f)
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1,835,898

WIRELESS COMMUNICATIONS - 2.9%

2,000,000	Alltel Corp. 7.88%, 07/01/32	1,995,000
19,492,000	Digicel Group, Ltd. 9.13%, 01/15/15 (j)	16,422,010
<i>See accompanying Notes to Investment Portfolio.</i>		

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INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

Principal Amount (\$)	Value (\$)
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Corporate Notes and Bonds (continued)**WIRELESS COMMUNICATIONS (continued)**

2,173,000	ICO North America, Inc. 8.50%, 08/15/09	1,488,505
		19,905,515
	Total Corporate Notes and Bonds (Cost \$351,754,554)	267,574,929

Claims - 0.1% (m)**AEROSPACE - 0.1%**

581,794	Delta Airlines, Inc. Delta ALPA Claim, 12/31/10	18,908
3,000,000	Northwest Airlines, Inc. ALPA Trade Claim, 08/21/13	120,000
5,326,500	Flight Attendant Claim, 08/21/13	213,060
3,161,250	IAM Trade Claim, 08/21/13	126,450
3,512,250	Retiree Claim, 08/21/13	140,490
	Total Claims (Cost \$2,612,060)	618,908

Shares**Common Stocks - 6.1%****BROADCASTING - 0.6%**

753,981	Communications Corp. of America (d) (e) (m)	3,950,860
18,118	Gray Television, Inc.	31,163

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108,772	Gray Television, Inc., Class A	375,263
		4,357,286
CHEMICALS - 0.8%		
265,045	Hercules, Inc. (k)	5,245,241
CONSUMER NON-DURABLES - 0.0%		
24,015	Outsourcing Services Group, Inc. (e) (j) (m)	
DIVERSIFIED MEDIA - 0.1%		
46,601	American Banknote Corp. (e) (m)	675,715
ENERGY - 0.1%		
17,100	Helix Energy Solutions Group, Inc. (m)	415,188
FINANCIAL - 0.3%		
555,258	Altiva Financial Corp. (m)	3,609
84,158	Hatteras Financial Corp. (k)	1,952,466
		1,956,075
GAMING/LEISURE - 0.4%		
111,988	Penn National Gaming, Inc. (m)	2,975,521
HEALTHCARE - 2.3%		
7,000,000	Genesys Ltd. (d) (e)	10,157,000
1,072,961	Microvision, Inc. (m)	2,081,544
44,008	Teva Pharmaceutical Industries Ltd., SP ADR (k)	2,015,126
36,795	UnitedHealth Group, Inc.	934,225
22,397	WellPoint, Inc. (m)	1,047,508
		16,235,403
HOUSING - 0.0%		

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8 Westgate Investments LLC, Class B-1 (m)

RETAIL - 0.0%

15,000 Sally Beauty Holdings, Inc. (k) (m) 129,000

SERVICE - 0.4%

200,964 Safety-Kleen Systems, Inc. (m) 3,016,475

TELECOMMUNICATIONS - 0.4%

107,953 iPCS, Inc. (m) 2,404,113
 232 Knology, Inc. (m) 1,872
 70,342 Micadent PLC
 1 Viatel Holding (Bermuda) Ltd. (m) 11

2,405,996

TRANSPORTATION - AUTOMOTIVE - 0.0%

1,544,148 Delphi Corp. (m) 106,546

TRANSPORTATION - LAND TRANSPORTATION - 0.2%

18,030 SIRVA Worldwide, Inc. (e) (m) 1,262,100

UTILITY - 0.2%

81,194 Entegra TC LLC (m) 1,542,686

WIRELESS COMMUNICATIONS - 0.3%

1,078,905 ICO Global Communications Holding Ltd. (m) 1,176,006
 554,527 ICO Global Communications Holding Ltd. (Restricted) (m) 604,434

1,780,440

Total Common Stocks
 (Cost \$56,204,872)

42,103,672

Preferred Stocks - 1.4%

10,000	Adelphia Communications Corp., Series B (m)	
1,000,000	Adelphia Recovery Trust (m)	20,000
2,150,537	Dfine, Inc., Series D (e) (m)	9,999,997
	Total Preferred Stocks (Cost \$10,934,997)	10,019,997

See accompanying Notes to Investment Portfolio.

INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

Units		Value (\$)
Warrants (m) - 0.0%		
20,000	Clearwire Corp., expires 08/15/10	750
1,000	Grande Communications, expires 04/01/11	10
49,317	IAP Worldwide Services, Inc. Series A, expires 06/12/15,	
14,444	IAP Worldwide Services, Inc. Series B, expires 06/12/15,	
7,312	IAP Worldwide Services, Inc. Series C, expires 06/12/15,	
643,777	Microvision, Inc., expires 07/23/13	
6,000	Sirius XM Radio, Inc., expires 03/15/10	
	Total Warrants (Cost \$1,010,349)	760
Total Investments - 131.3%		909,914,914
(cost of \$1,143,165,951) (n)		
Other Assets & Liabilities, Net (31.3)%		(217,172,413)
Net Assets applicable to Common Shareholders - 100.0%		692,742,501

The amount of \$53,186,352 in cash was segregated with the brokers and/or custodian to cover investments sold short outstanding as of September 30, 2008 and is included in Other Assets & Liabilities, Net :

Short Sales 4.3%**DEBT SECURITIES 1.1%**

Principal Amount (\$)	Value (\$)
GAMING/LEISURE - 0.6%	

6,000,000	Isle of Capri Casinos, Inc. 7.00%, 03/01/14	4,050,000
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HOUSING - 0.5%

6,000,000	Nortek, Inc. 8.50%, 09/01/14	3,450,000
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EQUITY SECURITIES - 3.3%

Shares

CHEMICALS - 0.1%

24,649	Ashland, Inc.	720,737
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CONSUMER DURABLES - 0.1%

75,000	Interface, Inc., Class A	852,750
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CONSUMER NON-DURABLES - 0.5%

147,059	Helen of Troy Ltd. (o)	3,348,533
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DIVERSIFIED MEDIA - 0.4%

172,200	New York Times Co., Class A	2,460,738
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HOUSING - 0.4%

253,771	Furniture Brands International, Inc.	2,669,671
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INFORMATION TECHNOLOGY - 0.3%

70,000	Watts Water Technologies, Inc., Class A	1,914,500
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MANUFACTURING - 0.5%

65,000	Carlisle Cos., Inc.	1,948,050
27,110	Mohawk Industries, Inc. (o)	1,826,943

3,774,993

RETAIL - 1.0%

242,276	Ethan Allen Interiors, Inc.	6,788,574
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Total Investments sold short
(Proceeds \$ 29,538,607)

30,030,496

(a) Senior loans
(also called
bank loans,
leveraged loans,
or floating rate
loans) in which
Highland Credit
Strategies Fund
(the Fund)
invests
generally pay
interest at rates
which are
periodically
determined by
reference to a
base lending
rate plus a
premium.
(Unless
otherwise
identified by
footnote (g), all
senior loans
carry a variable
rate interest.)
These base
lending rates are
generally (i) the
Prime Rate
offered by one
or more major
United States
banks, (ii) the
lending rate
offered by one
or more
European banks
such as the
London
Interbank
Offered Rate
(LIBOR) or
(iii) the
Certificate of
Deposit rate.

Rate shown represents the weighted average rate at September 30, 2008. Senior loans, while exempt from registration under the Securities Act of 1933 (the 1933 Act), contain certain restrictions on resale and cannot be sold publicly. Senior secured floating rate loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy. As a result, the actual remaining maturity may be substantially less than the stated maturity shown.

- (b) All or a portion of this position has not settled. Contract rates do not take effect until

settlement date.

- (c) Senior Loan assets have additional unfunded loan commitments. As of September 30, 2008, the Fund had unfunded loan commitments of \$12,391,325, which could be extended at the option of the Borrower, pursuant to the following loan agreements:

Borrower	Unfunded Loan Commitment
ComCorp Broadcasting, Inc.	\$ 50,479
Fontainebleu Las Vegas, LLC	666,667
Mobileserv Ltd.	5,000,000
Sirva Worldwide, Inc.	1,089,156
Sorenson Communications, Inc.	2,000,000
Tronox Worldwide, LLC	1,780,800
Westgate Investments, LLC	1,804,223
	\$ 12,391,325

See accompanying Notes to Investment Portfolio.

INVESTMENT PORTFOLIO (unaudited) (continued)

As of September 30, 2008

Highland Credit Strategies Fund

- (d) Affiliated issuer.
Under Section 2(a)(3) of the 1940 Act, a portfolio company is defined as affiliated if a Fund owns five percent or more of its voting stock. Comcorp Broadcasting, Inc. (Senior Loan), Genesys Ltd., and Communications Corp of America (Common Stocks), with a total aggregate market value of \$24,751,046, or 3.6% of net assets, were affiliated as of September 30, 2008.
- (e) Represents fair value as determined by the Fund's Board of Trustees (the Board) or its designee in good faith, pursuant to the policies and procedures approved by the Board. Securities with a total aggregate market value of \$63,572,023, or

9.2% of net assets, were valued under fair value procedures as of September 30, 2008.

- (f) The issuer is in default of its payment obligation. Income is not being accrued.
- (g) Fixed rate senior loan.
- (h) Loans held on participation.
- (i) Floating rate asset. The interest rate shown reflects the rate in effect at September 30, 2008.
- (j) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold, in transactions exempt from registration, to qualified institutional buyers. At September 30, 2008, these securities amounted to \$90,792,409 or 13.1% of net assets.

(k)

Securities (or a portion of securities) on loan. As of September 30, 2008, the market value of securities loaned was \$28,434,847. The loaned securities were secured with cash collateral of \$31,976,043.

(l) Step Coupon. A bond that pays an initial coupon rate for the first period and then a higher coupon rate for the following periods until maturity. Spectrum Brands, Inc., (Corporate Note & Bond) has a rate of 12.00% until 10/02/08.

(m) Non-income producing security.

(n) Cost basis for U.S. federal income tax purposes is identical to book basis. Unrealized appreciation and depreciation on investments are as follows:

Gross unrealized appreciation	\$ 9,493,355
Gross unrealized depreciation	(242,744,392)
Net unrealized depreciation	\$ (233,251,037)

(o) No dividend payable
on security sold
short.

AUD Australian Dollar

EUR Euro Currency

GBP Great Britain Pound

SEK Swedish Kronor

CDO Collateralized Debt
Obligation

CLO Collateralized Loan
Obligation

DIP Debtor-in-Possession

PIK Payment-in-Kind

SP ADR Sponsored American
Depository Receipt

**Foreign Denominated Senior Loans &
Asset Backed Securities
Industry Concentration Table:
(% of Total Net Assets)**

Diversified Media	2.3%
Cable/Wireless Video	2.2%
Wireless Communications	1.1%
Financial	0.6%
Telecommunications	0.6%
Total	6.8%

Forward foreign currency contracts outstanding as of September 30, 2008 were as follows:

Contracts to Buy or to Sell	Currency	Principal Amount Covered by Contracts	Expiration	Net Unrealized Appreciation
Sell	EUR	9,746,166	11/28/08	\$ 1,595,026
Sell	EUR	7,500,000	02/04/09	988,506
Sell	GBP	1,074,620	11/28/08	334,942
Sell	GBP	7,000,000	02/04/09	1,181,886

\$ 4,100,360

Security Valuation:

In computing the Fund's net assets attributable to Common Shares, securities with readily available market quotations use those quotations for valuation. When portfolio securities are traded on the relevant day of valuation, the valuation will be the last reported sale price on that day. If there are no such sales on that day, the security will be valued at the mean between the most recently quoted bid and asked prices provided by the principal market makers. If there is more than one such principal market maker, the value shall be the average of such means. Securities without a sale price or quotations from principal market makers on the valuation day will be valued by an independent pricing service. Generally, the Fund's loan and bond positions are not traded on exchanges and consequently are valued based on a mean of the bid and ask price from the third-party pricing services or broker-dealer sources. If securities do not have readily available market quotations or pricing service prices, including circumstances under which such are determined not to be accurate or current (including when events materially affect the value of securities occurring between the time when market price is determined and calculation of the Fund's net asset value), such securities are valued at their fair value, as determined by the Fund's Board of Trustees (the Board) or its designee in good faith in accordance with procedures approved by the Board. In these cases, the Fund's net asset value will reflect the affected portfolio securities' value as determined in accordance with procedures approved by the Board instead of being determined by the market. Using a fair value pricing methodology to value securities may result in a value that is different from a security's most recent sale price and from the prices used by other investment companies to calculate their net asset values. There can be no assurance that the Fund's valuation of a security will not differ from the amount that it realizes upon the sale of such security. Short-term investments, that is, those with a remaining maturity of 60 days or less, are valued at amortized cost. Repurchase agreements are valued at cost plus accrued interest. Foreign price quotations are converted to U.S. dollar equivalents using the 4:00 PM London Time Spot Rate. For more information with regard to significant accounting policies, see the most recent semi-annual report filed with the Securities and Exchange Commission.

See accompanying Notes to Investment Portfolio.

INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

Credit Default Swap Trade outstanding as of September 30, 2008:

Counterparty	Referenced Obligation	Buy/Sell Protection	(Pay)/Receive Rate	Expiration Date	Notional Amount	Unrealized Depreciation
Goldman Sachs Credit Partners L.P.	CDX.NA.HY.9	Buy (1)	(3.75%)	12/20/2012	16,394,400	\$ (61,479)
Total						\$ (61,479)

(1) If a credit event occurs as defined under the terms of the Credit Default Swap Index (CDX), the reference obligation that defaults drops out of the CDX and the CDX is quoted without the obligation until the next series of the CDX is issued. Unlike traditional credit default swap arrangements, the Fund, as a buyer of protection, will not receive the underlying reference obligation upon default of the underlying.

The amount of \$50,841,101 in cash was segregated with the custodian to cover the following total return swap outstanding at September 30, 2008:

Swap Name

	Expiration Date	Notional Amount	Unrealized Depreciation
Barclays Total Return Swaps	05/24/2010	\$ 144,861,056	\$ (25,595,027)
		\$ 144,861,056	\$ (25,595,027)

FAS 157

The Fund has adopted FAS 157 as of January 1, 2008. The Fund has performed an analysis of all existing investments and derivative instruments to determine the significance and character of all inputs to their fair value determination. Based on this assessment, the adoption of FAS 157 did not have any material effect on the Fund's net asset value. However, the adoption of FAS 157 does require the Fund to provide additional disclosures about the inputs used to develop the measurements and the effect of certain measurements on changes in net assets for the reportable periods as contained in the Fund's periodic filings. The three levels of the fair value hierarchy established under FAS 157 are described below:

Level 1 Quoted unadjusted prices for identical instruments in active markets to which the Company has access at the date of measurement;

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and

Level 3 Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Fund's assets as of September 30, 2008 as follows:

Investments in Securities (Market Value)	Total	Level 1	Level 2	Level 3
Portfolio Investments	\$ 909,914,914	\$ 13,587,618	\$ 520,893,004	\$ 375,434,292
Investments sold short	(30,030,496)	(22,530,496)	(7,500,000)	
Total	\$ 879,884,418	\$ (8,942,878)	\$ 513,393,004	\$ 375,434,292

Other Financial Instruments (Unrealized Appreciation/ Depreciation)) ***	Total	Level 1	Level 2	Level 3
Forward Foreign Currency Contracts	\$ 4,100,360	\$	\$ 4,100,360	\$
Credit Default Swap Trades	(61,479)		(61,479)	
Total Return Swap	(25,595,027)		(25,595,027)	
Total	\$ (21,556,146)	\$	\$ (21,556,146)	\$

* Equity Investments sold short

**

Debt Investments sold
short

*** Other financial instruments
are derivative instruments
not reflected in the
Investment Portfolio, such
as, forwards and swaps,
which are valued at the
unrealized
appreciation/(depreciation)
on the investment.

The Fund did not have any liabilities that were measured at fair value on a recurring basis at September 30, 2008.

INVESTMENT PORTFOLIO (unaudited) (continued)**As of September 30, 2008****Highland Credit Strategies Fund**

The following table presents our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2007 and at September 30, 2008.

Assets at Fair Value using unobservable inputs (Level 3)	Portfolio Investments
Balance as of December 31, 2007	\$ 28,539,096
Market Value of Level 3 from 07/18/08 merger	32,447,700
Transfers in/(out) of Level 3	202,276,575
Net amortization/(accretion) of premium/(discount)	807,344
Net realized gains/(losses)	(121,124)
Net unrealized gains/(losses)	(50,476,430)
Net purchases and sales	161,961,131
 Balance as of September 30, 2008	 \$ 375,434,292

The \$50,476,430 of net unrealized losses presented in the table above relate to investments that are still held at September 30, 2008.

Investments designated as Level 3 may include assets valued using quotes or indications furnished by brokers which are based on models or estimates and may not be executable prices. In light of the developing market conditions, the Investment Adviser continues to search for observable data points and evaluate broker quotes and indications received for portfolio investments. As a result, for the nine months ended September 30, 2008, \$202,276,575 of the Fund's portfolio investments was transferred from Level 2 to Level 3.

Item 2. Controls and Procedures.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Highland Credit Strategies Fund

By (Signature and Title)* /s/ James D. Dondero

James D. Dondero, Chief Executive Officer and President
(principal executive officer)

Date November 25, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* /s/ James D. Dondero

James D. Dondero, Chief Executive Officer and President
(principal executive officer)

Date November 25, 2008

By (Signature and Title)* /s/ M. Jason Blackburn

M. Jason Blackburn, Chief Financial Officer, Treasurer and Secretary
(principal financial officer)

Date November 25, 2008

* Print the name
and title of each
signing officer
under his or her
signature.